

From:	Leon Backes	1/5/2004 3:45 PM
To:	Bill Fisher	
Cc:	Kevin Cherry	
Bcc:		
Subject:	Re: It is working	
Attachments:		

Bill,

I have never disputed how hard you work.

POP funds are all really my funds that have been advanced to POP.

I don't think there has been that much spent on either the hotel or Colorado to this point. There has been a lot advanced toward San Antonio because of its involvement in the 9% round last year.

I was completely unaware of Brent's involvement until October when he showed up at the office looking for a space to work. I really think that should have been disclosed to me earlier.

Bill, I am rarely entrenched on any position, however, I won't back down on this and just accept this as the status quo. From my side, I cut a deal, I stuck with my side of the bargain, and I expected the same with both you guys. Quite honestly, getting as big a piece of the deal as you did with no capital invested gave me big heartburn when I made the deal. I tried to make sure our interests were at least somewhat aligned by having you wait for your profits until I got mine. Under your scenario, I could still be either out of pocket or on the hook for several million \$\$\$ while you and Sal would have pocketed a large amount of \$\$\$\$. I know that wasn't the deal that I cut. I understand everyone needing to eat, as I need to eat too, and do not have unlimited funds either.

What alternative structure would you propose?

Leon

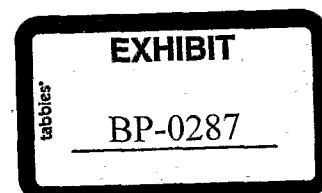
----- Original Message -----

From: Bill Fisher <<mailto:bfisher8@airmail.net>>
To: 'Leon Backes' <<mailto:lbackes@providentrealty.net>>
Cc: 'Kevin Cherry' <<mailto:kcherry@cherryhowell.com>>
Sent: Monday, January 05, 2004 8:01 AM
Subject: RE: It is working

Leon,

I have a meeting this AM with Fantroy on the hotel deal. I have the neighborhood board tonight in Houston. We have apps due this week on all the 9% deals including your sites in:

1. San Antonio
2. Dallas-Hotel



3. Colorado

I have a follow up with the Veterans neighbors on Thursday.

POP has a large portion of their funds invested in these sites particularly SA. I have invested a ton of time and political effort in those deals. I have paid Craig Blume and my operating team in SA out of my own funds to the tune of \$60K plus the political contributions I have made along the way. I have carried Brent Yeldell on my personal payroll since March 2003 at \$5K per month to insure Roy Orr's relationship with us. We did not stand a chance in Hickory without his support. I have been the consummate team player. These expenditures alone account for more than my entire advance account at \$10K per month.

Your expectation that I work all these deal for \$10K per month of borrowed money was never the deal. I cannot work under this structure you outline. I have asked several times for your position on any compromise given what I hope is a good faith misunderstanding. At this time it appears you are entrenched. Is there a resolution?? What do you expect of me at this point?

Bill

-----Original Message-----

From: Leon Backes [<mailto:lbackes@sbcglobal.net>]

Sent: Monday, January 05, 2004 12:02 AM

To: Bill Fisher; Saleem Jafar

Subject: Fw: It is working

Bill,

Thanks for taking the time to go with me to Houston. I liked both of the sites and think they should lease well.

A few things in response to your email, most of which we have talked about.

1. My biggest concern about our partnership really revolves around whether some of our basic philosophies are compatible. From what I and others have observed, there has been a distinct pattern of willingness to cut corners, operate in the gray area, push the envelope, etc. In my experience, this is bad business, and businesses that operate in this manner eventually self destruct. This is not the way I have operated. This makes everyone uncomfortable, adds a lot of unnecessary stress, and causes myself and the rest of the staff to be concerned about every action POP takes. Dealing with that attitude causes a lot of unnecessary negative energy to be expended. I am signing affidavits, loan docs, guaranties, and am responsible for millions of \$\$\$\$\$. For us to continue, I need absolute assurances that we are operating this business in a manner that will stand up to any kind of scrutiny. I have always operated this way, and don't intend to change. I think we had a couple of warning shots across the bow last year, and we should have learned from that.

2. The financial deal we cut was always that I would get my \$\$\$\$ back before distributions were made. I lived up to every agreement we made, and in fact ended up putting in almost twice what I had committed to. That was why I was shocked when I saw \$\$ leaving the closing without any discussion with me beforehand. As I had never agreed to guaranty any loans, lets see if the investors will advance pre-development \$\$ without my guaranty before deciding how this is resolved.

3. For the new year, I expect a cordial relationship between everyone at the office. I do not have the time or energy to deal with petty grievances, no matter if it is from the biggest producer, or the receptionist. I have passed this same expectation along to everyone, and will hold everyone to it.

4. I am also concerned about our ability to make sure these new projects we are committing to do get built, leased and managed. I know we can get deals closed, but that is just the first step. I want to see projects tracked, so progress can be monitored at all times, and we can stay on top of managing these things. Taking on this volume of work is a very large task, and I'm not yet convinced we have the real ability to handle it.

This is where I see things.

Leon

----- Original Message -----

From: Bill Fisher <<mailto:bfisher@providentrealty.net>>

To: 'Leon Backes' <<mailto:lbackes@providentrealty.net>>

Sent: Wednesday, December 31, 2003 9:10 AM

Subject: It is working

I will follow up with Matt and Joan all of next week to finalize the accounting. Preliminary it appears the \$890K reimbursement of our paid costs drops POP to about \$1.0 million. With pre development funding on the two deals we would have you paid out and about \$200K to the good in the next fourteen days. \$600K for each deal. When the Houston deals close, the project pays the predevelopment funding and the account should settle out within a couple hundred K or zero depending on what we draw and the cushion in the budget.

Next is your \$2.0 million liquidity covenant. I believe we should be close to drawing at least that amount from the first two construction jobs. This puts the investment bank into the position we planned for, a self funded structure. The construction profits for 2004, assuming the two deals close in Jan and Feb, will take you to zero even on the \$5.0 million covenant. If you do not object to crossing the deals together for pre development funds, your personal liability can probably be eliminated, starting with the first deals of 2004. Of course Saleem and I will both guarantee the loans directly to the investor or to you or both to satisfy our commitment.

A couple of issues that I hoped were clear when we went into the partnership:

1. Architects, engineers and third parties are budgeted and paid from the development budget not POP. That is why there was never a line item for them. Pre development funds from the investors carry the costs along with the vendor. With our size, we can likely get the vendors to work on some cost minimized formula in the event the development does not close. At least agree to carry the account to the next closing.
2. I would eat out of the development budgets just like I always had in the past. Limited draws to stay alive and the funds to come from the closing of the deal

I assure you both these issues were fully addressed in our discussions. I understand clearly you see it otherwise.

This is how this company plans to work during 2004 and the future. I think it is exactly what we served up to you one year ago. I do not see how anyone would want to walk away from a very solid, low risk business like this with the type of limited recourse structure we have fashioned in the market. I am not sure what feedback the folks in your shop are giving you but the feedback from the lending and investing community has been nothing but rave reviews. You will have the chance to see industry leaders at the conference in Utah. Please take some time to satisfy your self of the investment and competitor community's review of our company. I consider it to be the best informed benchmark you can get.

You seem to be having some hesitation about the continued volume. We will do only the best deals and in a volume you feel we can handle. But remember, volume in a limited exposure guarantee situation is our friend. Funds made and put away assure a net success for your family.

I will talk to Related about the guarantee issue on the pre development funds.

Happy New Year

Bill